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Livestock and Fibre markets

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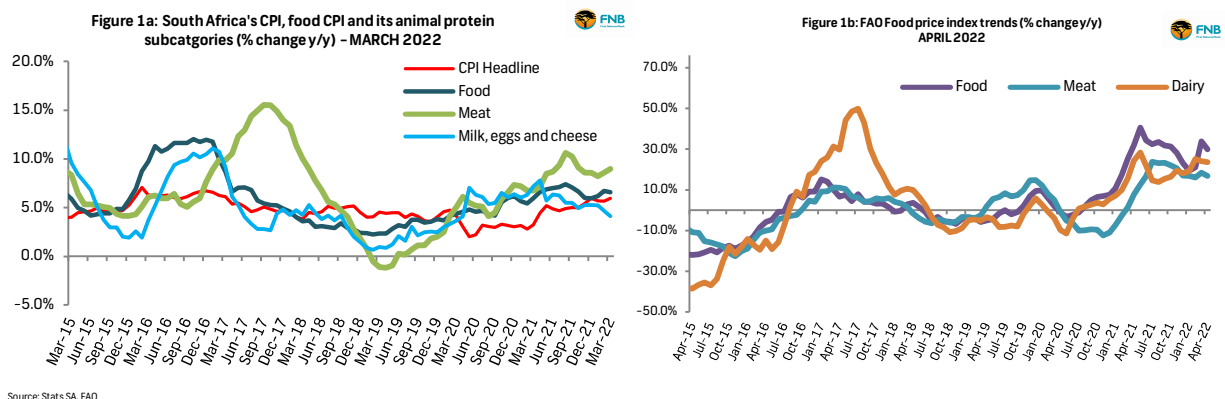


Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 10 MAY 2022

UPDATE ON LIVESTOCK MARKETS

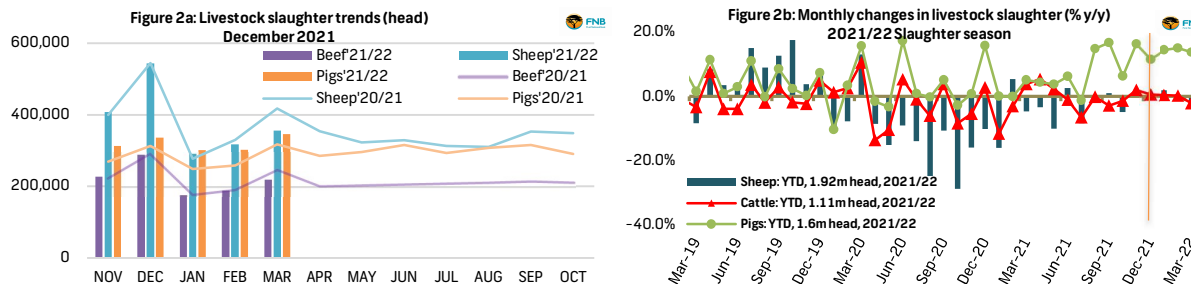
- Global food inflation as measured by the United Nation Food and Agriculture Organization (FAO) surprised on the downside, falling by 0.8% month-on-month (m/m) in April 2022 after posting a record monthly increase of 13.2% in March. Averaging 158.5 points, the FAO food price index decelerated to 29.8% year-on-year (y/y) from 33.9% y/y underpinned by losses in vegetable oils and cereals (figure 1b).
- Following a tumultuous two months of the Russia-Ukraine war which affected trade of sunflower oil and catapulted prices in the vegetable oil complex to record highs, weakness ensued due to demand contraction. Russia and Ukraine collectively account for almost 80% of the total world sunflower oil exports with shares of 25% and 52% respectively (5-year average to 2020/21 season).
- Although still elevated at a new record high of 121.92 points, the global meat subindex decelerated to 2.2% m/m and 16.8% y/y in April 2022 from 5.1% m/m and 18.4% y/y in March. The current strength in the meat complex was underpinned by a combination of supply tightness due to the Russia-Ukraine war-induced export disruptions and avian influenza outbreaks, as well as strong import demand. Ovine meat was the only exception in the meat complex with price decreases largely due to the contraction in the Chinese imports following Covid-19 lockdowns and logistical bottlenecks in ports.
- On the domestic market, the latest update on livestock slaughter numbers showed a sharp seasonal upswing across all categories in the lead up to the Easter period. The increased availability of meat however failed to put a break on prices as the relatively strong demand kept them elevated during March and during the better part of April.

Figure 1: Food price inflation trends – APRIL 20221 update



- Cattle slaughtered increased by a whopping 16% month-on-month (m/m) to 220,840 head in March but still down by 10.5% year-on-year (y/y). The cumulative total cattle numbers for the YTD reached 1.11 million head, which is still down 2.1% y/y. In the sheep market, the monthly total number slaughtered rose by 12.3% m/m in March 2022 but still down by almost 15% y/y at 356,277 head. This brought the cumulative YTD sheep slaughter number to 1.92 million head which is however still down by 2.5% y/y.
- The number of pigs slaughtered in March rose by 14.7% m/m and 9.2% y/y to 346,224 head, bringing the cumulative YTD total to 1.6 million head which is 13.7% ahead of the same period in 2021. The increased supplies of pig products on the local market saw prices trending on the downside with pork and baconer prices falling by 21% and 11% respectively y/y during March.
- The recent outbreak of Foot-and-Mouth Disease (FMD) has been significant given the numbers and the provinces affected. It is obviously not good news as it will have a negative impact on exports due to FMD being a notifiable disease in terms of the World Organization for Animal Health (OIE) and importing countries may elect to place a ban on imports as is the case with China recently.

Figure 2: South Africa's livestock slaughter trends



Source: Own calculations from Red Meat Levy Admin data.

- On the global front, the US posted modest gains in beef exports for the YTD (MAR) with a total of 353,852 tonnes, which is 6% higher y/y. Korea, Japan, and China (+HK) were the biggest destinations with shares of 21.3%, 20.4%, and 17.6% respectively. However, China posted the biggest increase of 36% y/y while shipments to Japan were 4% down on last year.
- US pork exports on the other hand saw a sharp contraction of 20% y/y for the YTD at 629,928 tonnes led by Mexico, China, and Japan which collectively accounted for 70% of the total with shares of 39%, 17%, and 14% respectively. However, China and Japan procured 56% and 13% respectively less pork from the US in 2022 while Mexico saw a 30% y/y jump in quantity imported.
- The main market for the US lamb and mutton is Mexico which accounts for 91% of the total and it is followed by the Caribbean at 5% share of the total while the rest are less 5%.

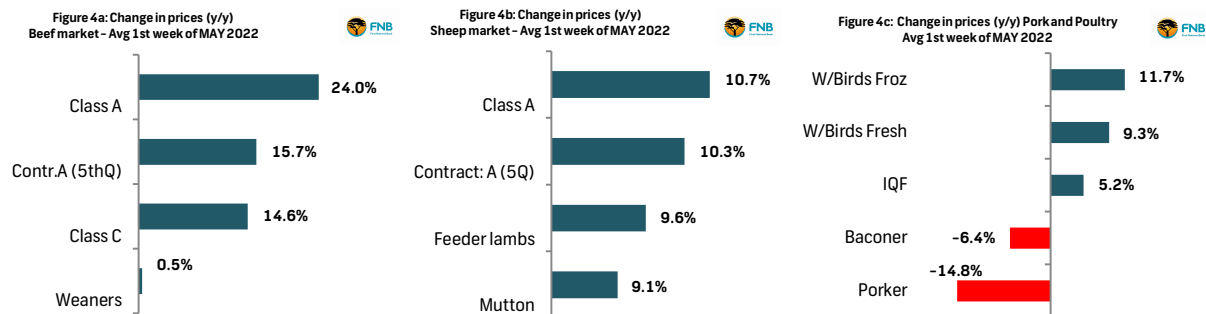
Figure 3: US meat exports – top destinations



Source: USMEF,

- The world's biggest lamb and mutton exporters are Australia and New Zealand which collectively accounted for 66% of total with shares of 36% and 30% respectively of total exports in 2020. AU exports for the YTD were up 6% y/y with large destinations being China and the US with shares of 23% and 20% respectively. Although China remains the dominant market, its volumes of imported AU lamb and mutton fell by 23% y/y.
- The monthly trend in meat prices still shows an uptrend across most categories except for the pork market that remains under pressure with sharp decreases of 14.8% and 6.4% y/y for porkers and baconer respectively as illustrated in figures 4a to 4c.

Figure 4: Changes in average weekly livestock prices (% change y/y)



Source: Own calculations from FNB AgriComms.

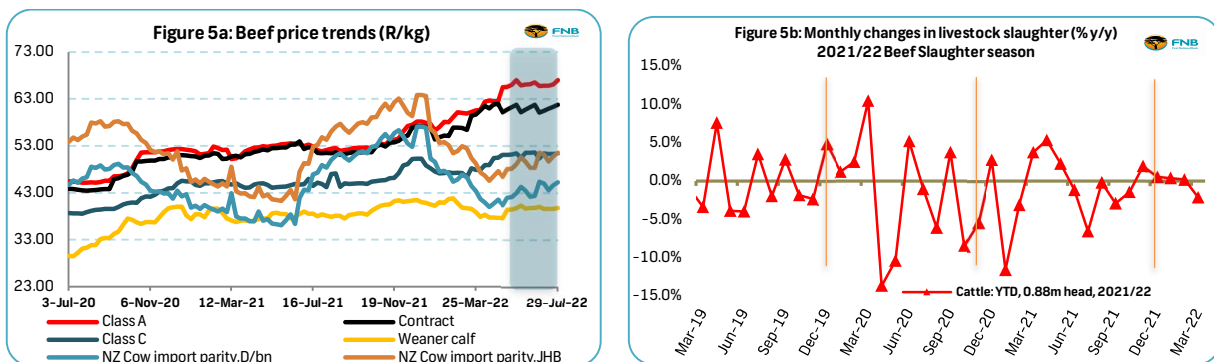
International update on beef markets

- The latest update on US imports is that prices have been relatively lower in a slow trading week despite limited supplies from traditional suppliers Australia and New Zealand. Weakness on the domestic market provided further pressure with wholesale beef cutout values falling by 1.9% and 2.4% week-on-week (w/w) for the Choice and Select categories respectively, and are both 14% below the 2021.

Domestic beef market update:

- A mixed trend in beef prices as demand slipped post-holiday period.
- In the weaner market, prices steadied but still off the record highs of over R40/kg live weight (LW) earlier in the year at R37.72/kg live weight (LW). The current weaner calf prices are unchanged y/y but still 12% above the three-year average for this time of the year.

Figure 5: Beef prices and cattle slaughter trends



*Last nine data points on figure 2a are preliminary

Source: Red Meat LevyAdmin

Table 1: Beef producer price trends in South Africa

| Beef producer prices: Beef market – South Africa | | | | | | |
|--|----------|---------|---------|------------|-----------|-----------|
| Date | 6-May-22 | % Δ w/w | % Δ y/y | 3-Year Avg | 29-Apr-22 | 22-Apr-22 |
| Class A (R/kg) | 65.50 | 4.7% | 24.0% | 20.0% | 62.28 | 62.51 |
| Class C (R/kg) | 51.18 | 1.4% | 15.0% | 15.0% | 49.23 | 50.44 |
| Contract: A (*Incl.5thQ) | 60.21 | -2.8% | 16.0% | 16.0% | 61.18 | 61.86 |
| Import parity (R/kg) | 46.20 | -2.0% | 8.0% | 2.0% | 46.79 | 46.58 |
| Weaner calves (R/kg LW) | 37.72 | 0.0% | 0.0% | 12.0% | 38.18 | 37.75 |

LW – Live Weight; *Fifth quarter. Source: USDA, JSE, FNB Agric

OUTLOOK

Increased availability due to seasonal weaning will continue to limit further upside in the weaner market. Subdued winter demand will place downward pressure on beef prices in the medium term. Meanwhile, there is no respite on the feeding front as the elevated raw feed input prices continue to pose upside risk to feed costs.

Weekly summary of the sheep market

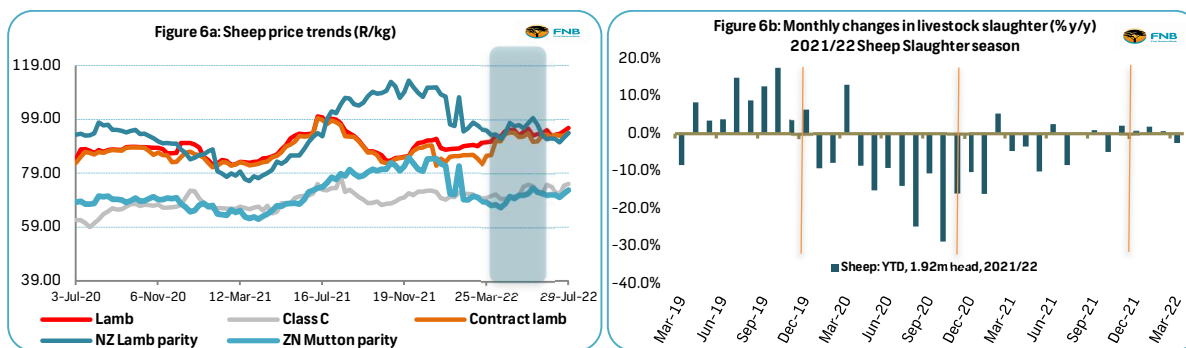
International sheep market update

- The Australian national trade lamb indicator continued to trend at record lows on limited demand despite tight seasonal supplies in a holiday packed month.
- New Zealand lamb export returns are reportedly on the upside with record average values across the board. This was underpinned by strong demand from the US and European markets. However, the China market slowed with prices softer due to the Covid-19-induced lockdowns.

Domestic sheep market update

- The market moved sideways towards midmonth and the subdued post-holiday demand.
- In the feeder lamb market, prices remain elevated at R45.63/kg LW. At current levels, weaner lamb prices are 3% higher y/y and 13% above the 3-year average for this time of the year.

Figure 6: Lamb and mutton prices and sheep slaughter trends



*Last nine data points on figure 3a are preliminary

Source: Red Meat LevyAdmin

Table 2: Sheep producer price trends in South Africa

| Sheep market – South Africa | | | | | | |
|--------------------------------|----------|---------|---------|------------|-----------|-----------|
| Date | 6-May-22 | % Δ w/w | % Δ y/y | 3-Year Avg | 29-Apr-22 | 22-Apr-22 |
| Class A (R/kg) | 95.18 | -0.1% | 10.7% | 12.0% | 95.30 | 94.89 |
| Mutton (R/kg) | 70.59 | 0.9% | 9.0% | 13.0% | 69.98 | 69.81 |
| Contract: A (*Incl.5thQ, R/kg) | 94.23 | -0.1% | 10.0% | 12.0% | 94.28 | 93.76 |
| Import parity (R/kg) | 95.95 | 0.0% | 15.0% | 8.0% | 96.08 | 93.98 |
| Feeder lambs (R/kg LW) | 45.63 | 1.6% | 3.0% | 13.0% | 44.89 | 44.23 |

LW – Live Weight; *Fifth quarter. Source: USDA, JSE, FNB Agric

OUTLOOK

Subdued seasonal demand associated with the winter months will place downward pressure on the market in the medium term.

Weekly pork market

International pork market update

- With the braai season on the horizon, US pork futures showed some strength with tightening supply prospects providing added support. Nonetheless, the pork cutout values were still 6% below the 2021 levels while the YTD number of pigs slaughtered fell by 5.4% y/y at an estimated 43.94 million head.
- In China, the country's sow herd was reported down by just over 3% in March to 42 million head which is 3% below the 2021 level. However, this failed to lift the market prompting the authorities earlier in March to increase pace of purchases for state reserves to prop up prices.

Domestic pork market update

- There was some resilience in the baconer and porker market after a bumpy ride earlier in the year. Porker and baconer prices are however still way below the 2021 levels by 11% and 6% respectively but still 13% and 26% higher than the 5-year average for this time of the year.
- This is a good development for this market as unrelenting feed grain prices have been hard on producer margins.

Figure 7: Pork prices and slaughter trends

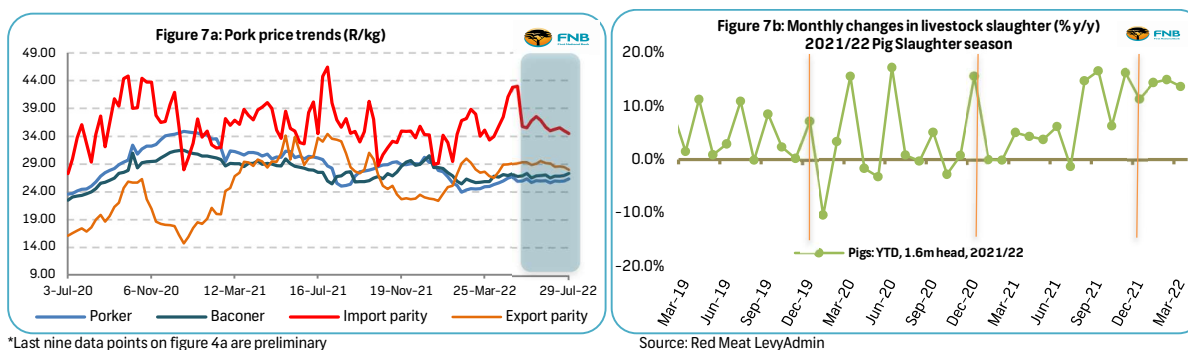


Table 3: Pig producer prices and slaughter trends

| Pork market - South Africa | | | | | | |
|----------------------------|----------|---------|---------|------------|-----------|-----------|
| Date | 6-May-22 | % Δ w/w | % Δ y/y | 3-Year Avg | 29-Apr-22 | 22-Apr-22 |
| Porker (R/kg) | 26.69 | 0.9% | -11.0% | 13.0% | 26.45 | 25.89 |
| Baconer (R/kg) | 27.18 | 1.1% | -6.0% | 26.0% | 26.89 | 27.04 |
| Import parity (R/kg) | 42.89 | 4.0% | 10.0% | 37.0% | 41.00 | 37.43 |

Source: USDA, JSE, FNB Agric

OUTLOOK

We expect prices to maintain the current momentum in the short term but with further upside due to the spill over strength in the red meat complex as pork trades at a discount relative to other meat types.

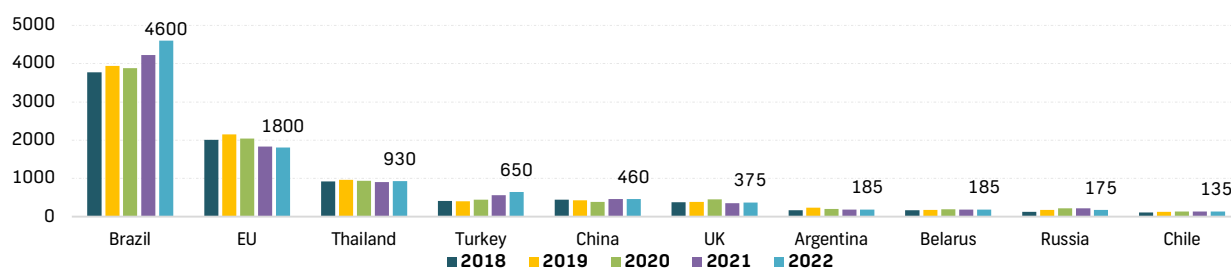
Weekly poultry market update

International poultry market update

- The US frozen mechanically separated chicken (MSC, 15-20% fat) market showed some strength in last week's trade on moderate demand on both the domestic and export markets. The fresh MSC category was however a bit softer but still 14% above the 2021 level at US\$4.42 cents/lb.
- In the whole bird category, US prices steadied last week but still 88% higher y/y and 38% above the opening for 2022. For portions, leg quarters continued to trend sideways but 5% and 3% respectively above last year and the Jan 2022 level.

- Meanwhile, USDA estimates show a marginal increase of 0.4% y/y in global chicken meat output for 2022. This is still a record high at 100.97 million tons with Turkey, Russia, and Brazil posting the biggest increases of 6.4%, 4.3%, and 2.4% y/y (figure 8).
- Higher feed costs have curtailed output in other areas and Brazil stands in a better position as the leading exporter to fill the void especially the loss of Ukraine and Russia whose volumes are expected to shrink by almost 20% y/y.
- Turkey and UK exports are expected to jump 15.5% and 7% respectively y/y on rebound in demand in the region as the world's second major chicken meat exporter, the EU, sees volumes falling by 2% y/y.

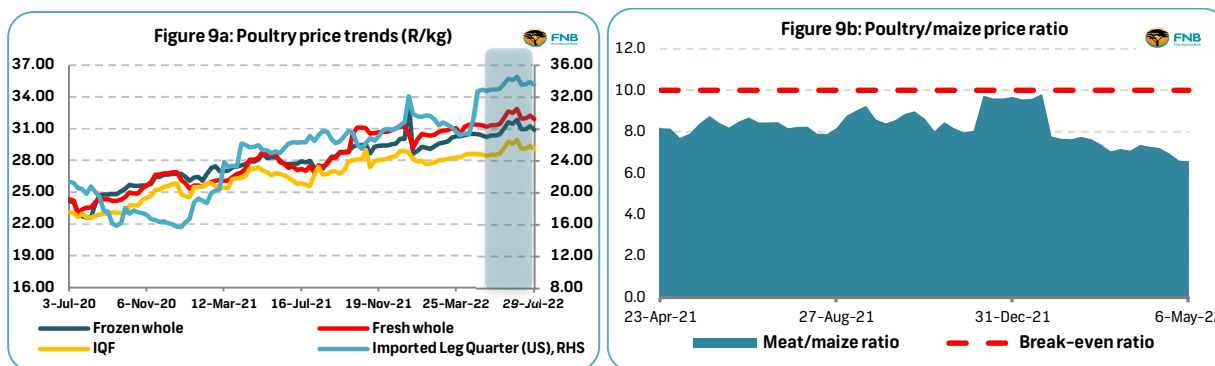
Figure 8: Global chicken meat export trends by country (000'tons)



Source: USDA.

- Although still elevated, the benchmark contract for difference (CFD) for poultry prices in Brazil fell by 4% from the 2022 peak at BRL7.88/kg in latest trade. This is however still 35% higher than the 2022 low and pre-Russia-Ukraine war and almost 10% higher y/y.
- Using the 5-year average to 2021, Brazil accounts for 14% and 31% of world production and exports respectively and it is projected to raise its exports by almost 9% y/y in 2022 according to the USDA estimates.

Figure 9: Poultry prices and meat/maize ratio trends

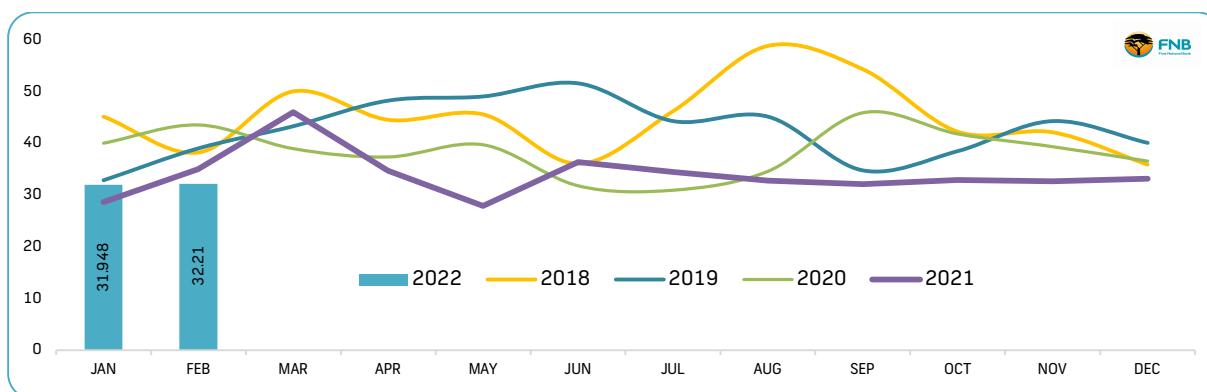


Source: FNB Agriculture, *Last nine data points on figure 5a are preliminary

Domestic poultry market update

- The local market experienced some weakness as consumer demand continues to take a strain. The weekly trend in prices was on the downside across most categories.
- However, the current fresh whole bird, frozen (medium) whole bird, and IQF portion prices are 11%, 8%, and 5% above the 2021 levels which reflects the strength in the local market underpinned by resilient demand and the relatively limited stock amid tight import volumes relative to last year.
- Poultry imports showed a contraction of 2.7% m/m in February 2022 at 32,869 tons. However, the broiler component came in at 32,214 tons which is marginally higher by 0.8% m/m but still down by 8.1% y/y (see figure 9). Brazil still accounted for the largest share of almost 78% of the total SA imports.

Figure 10: South Africa's broiler import trends ('000 tons)



Source: SARS,

Table 4: Poultry producer price trends in South Africa

| Week ending | Poultry market - South Africa | | | | | |
|--|-------------------------------|---------|---------|------------|-----------|-----------|
| | 6-May-22 | % Δ w/w | % Δ y/y | 3-Year Avg | 29-Apr-22 | 22-Apr-22 |
| Fresh whole birds (R/kg) | 31.37 | -0.2% | 11.0% | 10.0% | 31.42 | 31.37 |
| Medium Frozen whole birds (R/kg) | 30.39 | -0.5% | 8.0% | 9.0% | 30.54 | 30.49 |
| Individually Quick Frozen (IQF) (R/kg) | 28.60 | -0.2% | 5.0% | 9.0% | 28.67 | 28.62 |
| Import parity (R/kg) | 32.95 | 0.6% | 27.0% | 20.0% | 32.67 | 29.06 |

Source: USDA, JSE, FNB Agric

OUTLOOK

- There seems to be no respite on the feeding front as the relatively high maize prices lowered the meat/maize ratio recently, thus it continues to fall further away from the breakeven level as illustrated in figure 9b. The tightening import volumes that further faces a significant tariff will help maintain the upside for domestic market in the medium term.

Raw feed input price update

- The current futures prices of maize, soybean, and sunflower remain high relative to last month and the previous year. White maize (WMAZ) prices are now back above the R4,400/ ton recently but still trading at a discount over its yellow counterpart, which is trading above R4,600/ ton.
- Yellow maize (YMAZ) nearby futures prices began this week a stronger note, rising by almost 9% m/m at R4,614/ ton with the rest of the contracts increasing by same margin across the board. In the oilseed complex, sunflower futures are still above R10,000/ ton but off the 2022 peak of R12,259/t and marginally higher m/m (table 5).
- Soybeans on the other hand showed some renewed gains with nearby Jul22 and Sep22 futures both increasing by 4% m/m at R9,144/ t and R9,236/ t.
- At current levels and if sustained, the profitability of intensive feeding system will remain under huge pressure and producers might need to cut back on future expansions (see table 5).

Table 5: Raw feed inputs - Latest price trends in JSE grain and oilseed futures market (R/ton)

| 10 MAY 2022 | WMAZ | change m/m | YMAZ | change m/m | SUNS | change m/m | SOY | % change m/m |
|-------------|--------|------------|--------|------------|---------|------------|--------|--------------|
| Jul-22 | R4,472 | 9.3% | R4,614 | 9.0% | R10,645 | 0.2% | R9,144 | 4.0% |
| Sep-22 | R4,538 | 9.8% | R4,669 | 9.1% | R10,801 | 0.2% | R9,236 | 4.4% |
| Dec-22 | R4,618 | 9.3% | R4,740 | 8.9% | R10,955 | 0.3% | R9,310 | 3.8% |
| Mar-23 | R4,630 | 9.2% | R4,712 | 9.0% | - | - | R9,307 | - |
| May-23 | R4,464 | - | R4,479 | - | - | - | R8,403 | 0.9% |

Source: JSE,

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